

K2 Australian Fund

31 July 2024



The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	4.08%	153.99	9.17%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	12.6%	+0.0%
Seven Group Holdings Ltd	9.4%	+0.2%
BHP Group Ltd	8.8%	+1.0%
RIO Tinto Ltd	6.4%	-0.2%
NIB Holdings Ltd	5.3%	+0.0%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	67.1%	+8.0%
Mid Caps>=AUD\$2b<AUD\$7.5b	16.8%	-3.9%
Small Caps<AUD\$2b	16.2%	+5.8%

Month End Exposures	Current	Monthly Move
Consumer	10.7%	+2.5%
Energy	1.9%	-0.1%
Financials/Real Estate	45.8%	+4.8%
Health Care	8.9%	+1.8%
Industrials	14.1%	+0.2%
Materials	18.6%	+0.7%
SHORTS	-1.3%	-1.3%
Number of Positions	25	+3
Gross Equity Exposure	101.3%	+11.2%
Cash Weighting	1.2%	-8.7%
Net Equity Exposure	98.8%	+8.7%

Fund Characteristics	
Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
Strategy	Australian and New Zealand Equities
Objectives	To deliver consistent returns over the investment cycle with a focus on capital protection during periods of market declines
Return Target	+10% pa over the long term
Number of Stocks	25 to 50
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	1.31%
Buy/Sell	Daily Application/Redemption
Performance Fee	15.38% pa of the amount by which the NAV per unit exceeds the High Water Mark once the fund achieves its hurdle
Investment Horizon	5 Years
Style Bias	Growth At a Reasonable Price
Market Capitalisation Bias	>\$7.5 billion

Commentary

The K2 Australian Fund returned 4.08% for the month.

Since the start of 2022, central bankers in developed economies have conducted a synchronised interest rate hiking cycle. On average, official cash rates rose by more than 400 basis points in just two years. One of the side-effects of this significant monetary tightening phase was that economically sensitive entities bore most of the pain. In response, indebted households curtailed discretionary spending, first-time home buyers delayed purchases, and commercial property developers postponed new construction projects. In aggregate these actions drained the confidence of the consumer. The reading of Australian consumer sentiment over the past two years is on par with what was evident during the recession of the early 1990's and during the dark days of the GFC. Through the eyes of the consumer, the glass is certainly half empty.

It is worth noting that there are more than fifty consumer discretionary and real-estate companies within the Small Ordinaries Index. As a result, we shouldn't be shocked that the price of the Small Ordinaries Index has declined by 13% since the start of 2022. Interestingly, over the same time period, the S&P/ASX 100 has risen by 11% and partly reflects the fact that it contains only sixteen consumer discretionary and real-estate companies. This level of underperformance by Small Cap companies has only occurred on three occasions; post the tech bubble in 2000, during the GFC and briefly in 2013. To regain the lost relative performance, we need to believe that the earnings per share (EPS) from Small Caps can sustain a double-digit annual growth rate for several years. The last time this occurred was back during the years between 2003 and 2008. During this six year stretch the Small Ordinaries Index delivered a total return of over 200% and outperformed the S&P/ASX 100 by 50%. We believe that this level of outperformance can be repeated particularly given that a handful of central banks have already started offering some monetary policy relief. The Fund is overweight Small Cap companies.

During the month the Fund added to its Corporate Travel (CTD) position. CTD's share price has declined by 35% since it announced its first half profit in February 2024. At the time, CTD indicated that its prior guidance range for FY2024 EBITDA needed to be revised down by around 15%. Issues surrounding immigration challenges in the UK and generally subdued global trading conditions were the main contributors. However, CTD also confidently outlined a strategy to double profits over the coming five years. Revenue is expected to grow twice as fast as costs and hence, margins should expand by around 25% by FY2029. CTD has also committed to maximising shareholder returns through four initiatives; dividend payments, growth projects with return prospects of 25%+, future acquisitions, and share buy-backs. CTD has already implemented one of these return initiatives; since February, CTD has bought-back 1.47 million shares at an average price of \$15.75. A lower share count will complement the profit ambitions and help drive EPS growth. CTD's return on equity should rise and a higher valuation multiple typically follows. Pleasingly, the Fund acquired its additional stake in CTD significantly below the buy-back price.

The best performing holdings for the Fund this month were Resmed Inc (RMD) and Summerset Group (SUM). RMD's share price had been under pressure following the release of anti-obesity drugs. However, RMD has been delivering quarterly profit results that contradict market concerns. Expectations are that this will again be the case with the forthcoming result. SUM's share price rallied after peer aged-care provider Avida Group received a takeover bid.

George Boubouras
 Managing Director (MD)
 Research, Investments & Advisory
research@k2am.com.au

Marcela Tirado
 Head of Relationship Management
 & Corporate Services
invest@k2am.com.au

K2 Australian Fund Net Monthly Returns in AUD

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD	Fin YTD Index (1)	Average Cash	Average Short	
1999/00				1.90	2.00	9.51	-3.92	-2.58	5.57	-3.95	-1.93	2.44	8.53	15.98	51.97%	-12.83%	
2000/01	13.14	6.79	-3.07	0.14	4.50	0.91	4.53	-2.88	-11.90	13.03	5.25	0.47	32.19	8.85	27.72%	-16.68%	
2001/02	-7.85	-4.82	-5.35	8.66	11.51	1.84	3.93	3.54	-0.16	-0.36	2.66	-2.71	9.54	-4.50	32.13%	-14.57%	
2002/03	-6.33	3.62	-0.93	1.69	1.62	4.28	1.80	1.23	-0.17	2.20	0.66	1.45	11.23	-1.08	51.58%	-14.43%	
2003/04	3.72	6.97	1.59	2.45	-1.19	2.93	0.44	1.39	0.54	-0.07	0.32	2.16	23.16	22.37	36.03%	-3.74%	
2004/05	3.07	1.39	4.18	4.46	3.68	1.38	3.83	0.32	-2.04	-3.41	0.79	3.22	22.57	24.75	26.86%	-5.18%	
2005/06	1.34	0.74	3.91	-3.22	3.74	1.40	1.72	0.52	3.51	1.91	-0.43	2.03	18.33	24.20	27.57%	-3.95%	
2006/07	-0.88	2.28	1.53	5.78	0.42	2.98	1.03	0.51	3.03	2.67	3.46	0.16	25.35	30.28	32.21%	-4.92%	
2007/08	-0.61	-1.48	2.56	0.91	-1.90	-0.29	-9.27	-0.39	-1.46	1.58	0.91	-2.27	-11.56	-12.12	51.05%	-8.23%	
2008/09	0.26	2.84	-5.78	-5.61	-3.76	3.37	-1.65	-1.16	5.75	4.72	0.91	2.86	1.94	-22.15	46.55%	-3.37%	
2009/10	7.17	7.41	5.13	-0.98	1.75	3.51	-4.00	-0.23	3.46	-0.58	-5.67	-0.85	16.30	13.78	10.30%	-2.62%	
2010/11	2.10	-1.10	4.72	3.27	0.07	3.41	-0.49	1.92	0.00	-1.59	-1.73	-0.77	9.99	12.17	14.13%	-3.98%	
2011/12	-3.41	-0.59	-4.76	3.69	-2.82	-2.13	3.08	1.91	1.94	-0.20	-5.47	-0.37	-9.22	-7.04	23.28%	-3.47%	
2012/13	3.27	2.95	1.21	3.61	0.07	3.07	4.47	4.47	0.32	4.54	-2.84	-1.39	26.09	20.67	7.24%	-0.19%	
2013/14	3.27	1.31	4.56	2.53	-0.31	0.08	-2.33	2.23	1.70	-0.13	-0.01	-0.87	12.49	17.64	11.71%	-0.02%	
2014/15	2.83	1.60	-2.02	1.99	-0.83	-0.72	3.46	6.25	0.40	-0.35	1.17	-2.97	10.98	5.67	18.55%	-0.34%	
2015/16	1.61	-4.14	-2.72	3.42	-0.62	-1.70	-3.79	-1.43	4.39	3.08	2.25	-3.08	-3.16	2.01	19.81%	-0.29%	
2016/17	5.14	1.29	1.25	-1.40	-0.03	2.94	0.23	-1.56	1.00	-0.07	0.07	-0.02	8.99	13.12	16.66%	-1.52%	
2017/18	1.00	0.26	0.50	2.87	1.80	3.25	0.79	0.73	-2.72	1.74	0.68	1.58	13.08	13.73	21.63%	-3.71%	
2018/19	0.39	-1.40	0.11	-7.18	-2.45	-1.17	0.06	2.43	0.17	1.41	0.34	-0.29	-7.63	11.04	39.30%	-3.30%	
2019/20	2.23	-4.63	3.59	-0.99	3.96	2.13	2.74	-9.38	-26.24	10.83	5.72	2.17	-12.70	-7.21	13.58%	-1.65%	
2020/21	3.13	5.12	-3.93	1.68	13.34	2.36	-1.03	3.98	1.03	4.35	1.05	1.01	36.05	30.24	2.29%	-0.18%	
2021/22	0.49	2.58	-1.35	-0.48	-1.43	2.58	-5.82	2.00	3.79	-1.70	-3.68	-10.94	-13.98	-7.44	1.14%	-0.19%	
2022/23	4.88	0.89	-6.77	2.47	5.05	-3.51	6.95	-2.66	-1.46	1.38	-1.94	-0.37	4.10	14.75	4.10%	-0.68%	
2023/24	3.82	2.11	-1.35	-3.94	4.63	7.84	0.66	-0.41	2.15	-3.47	0.05	0.19	12.31	12.51	-1.60%	-0.31%	
2024/25	4.08												4.08	3.84	3.77%	-0.60%	
													Incept.	783.89	683.81		
													Incept.	9.17%pa	8.64%pa	22.68%	-4.27%

(1) S&P/ASX All Ordinaries Accumulation Index

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